DEİK
DIŞ EKONOMİK İLİŞKİLER KURULU
FOREIGN ECONOMIC RELATIONS BOARD

Success Stories

Success Stories

DEiK

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Turkey is one of the
fastest growing large
economies of the world.

FOREWORD

As DEİK / Turkish-German Business Council, we are honored to present the "Success Stories", a publication aimed at generating greater synergy and understanding between Turkish and German business communities, which is also the aim of the Turkish-German Business Council.

The Turkish-German Business Council operates as one of the 86 Business Councils of DEİK, Foreign Economic Relations Board of Turkey, which was founded 20 years ago to stimulate Turkey's economic, commercial, industrial and financial relations with foreign countries as well as international business communities. In this regard the core focus of the Business Council is to improve the bilateral trade and investment relations between two countries. At the same time, we also aim at promoting cultural understanding between Germany and Turkey.

"Success Stories" shows the Business Council's proactive approach in raising awareness on business prospects between Turkey and Germany at the SME level. By focusing on the prominent sectors of Turkey, namely, automotive supplier industry, white goods and machinery, which are well known for their supplier industries' competitive advantage (compared to Germany and other countries in the region), this document aims to demonstrate the potential of the Turkish economy and investment opportunities in Turkey from a business perspective.

The publication is composed of four main parts. The first part gives an overview of the structure of the Turkish economy, highlighting Turkey's attractiveness for foreign direct investments. The second part provides useful information on key industries for investment, focusing on automotive, white goods and energy sectors. The third part highlights the position and potential of Turkey's neighbors as another strong point for business cooperation between two countries. The document takes its title from the last part, success stories, which presents successful cases of cooperation between German companies and Turkish SMEs. The stories, which we hope you find very interesting, confirm that Turkey is the right destination for investments. We should also mention that the last part also presents Turkish SMEs that are ready for cooperation with a German counterpart(s).

We, as the Turkish-German Business Council, would like to thank all who contributed to the process of composing this book, particularly to those who shared their business experiences with great sincerity. We hope that "Success Stories" inspire new joint ventures and cooperation between Turkish and German firms.

Ferit F. Şahenk
Chairman
Turkish-German Business Council

Agah Uğur
Industry, Investment and SMEs
Committee Chairman & Board
Member Turkish-German Business Council

WHAT IS TURKISH-GERMAN BUSINESS COUNCIL

The Turkish-German Business Council, operating under the umbrella of the Foreign Economic Relations Board of Turkey (DEIK) was formed in 1996 with the aim of enhancing trade and investment relations between Turkey and Germany.

The Turkish-German Business Council's vision is primarily to increase the volume of trade between Turkey and Germany, to be recognized as the source of information and networking on bilateral issues for both Turkish and German companies and to assist German companies to view Turkey as a key partner and destination for direct investments in the region. In order to achieve its vision the Business Council aims to develop the bilateral economic and trade relations and mutual cooperation possibilities, joint investments and collaboration in third countries.

The Turkish-German Business Council subsequently operates with a mission to create platforms to facilitate the development of commercial and trade relations through its range of activities. The Council conducts studies in order to identify potential cooperation areas and inform the Turkish and German business communities. Main areas of cooperation cover energy, infrastructure projects, automotives, transport equipments, machinery, plastics, chemicals, environmental technologies, agro-industry, healthcare, tourism, construction-contracting, IT and financial services.

Parallel to the increasing need of small-and medium sized enterprises' integration into the global economy, the Council also aims to provide for various platforms and services to match this prevailing need on behalf of the Turkish SME's.

The Turkish-German Business Council plans its activities through strategic and industry-specific committees, namely Media and Communication, EU Relations and Integration, Industry-Investment and SME's, Banking and Finance as well as the Social Activities committee. The Executive Committee is represented by the top-level executives of the leading companies in Turkey.

The Turkish-German Business Council is to organize the first, of many, joint annual cooperation and investment conferences in 2010, which is planned to be held every year in Berlin. This conference is to create further opportunities for member companies to exchange views on economic and political issues put forward by experts.

The Turkish-German Business Council places emphasis on cooperation at the level of small and medium sized enterprises and therefore has decided take a proactive role in contributing to the awareness of possible business prospects between Turkey and Germany at the SME level.For detailed information please contact:

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SECTION
I

INVESTMENT ENVIRONMENT
GREAT PLACE TO INVEST

1. Attractiveness of Turkish Market/Investment Environment

Turkey is one of the fastest growing large economies of the world. Turkey, being the commercial center of Southeastern Europe, Middle East and Eurasia is becoming an increasingly important country in the region. Turkey,at the center of global economy with 1,5 billion population and 17 trillion USD economy, is within a 4-hour flight distance to one fourth of the world.

With a young, dynamic, well-educated and multi-cultural population of 72 million, Turkey has the youngest youth population of Europe with an average age of 28,5, urbanization rate of 70%, 43 million credit card users, 65 million cellular phone users, and 26.5 million internet users.

2. Macro Economic Structure of Turkey

Following an era of rapid growth between 2001-2008, Turkey is currently the world's 17th largest economy and one of the strongest competitors in its region due to its proximity to Europe, Middle East, North Africa and Eurasia and its integration with the European market. Gifted with favorable demographics such as a young and vibrant work force, crisis experienced businesses and a well reformed banking system, Turkey is one of the most robust economies in its region. Main indicators for the Turkish economy are as below:

	2006	2007[1]	2008[1]	2009[1,2]	2010F [2]	2011F [2]
GDP Growth	6,9%	4,7%	0,9%	-4,7%	3,5%	4,0%
GDP (billion $)	528,2	646,6	731,7	617,6	641,0	669,0
GDP per capita ($)	7.502	9.158	10.294,0	8.456,0	8.821,0	9.096,0
CPI	9,7%	8,4%	10,1%	5,9%	5,3%	4,9%
Exports (billion $)	85,5	107,3	132,0	98,5	107,5	118,0
Imports (billion $)	139,6	170,1	202,0	134,0	153,0	168,0
Trade Balance (billion $)	-54,0	-62,8	-69,9	-35,5	-45,5	-50,0
C/A Balance (% of GDP)	-6,1%	-5,9%	-5,7%	-1,8%	-2,8%	-3,3%

Despite being severely hit by the global crisis in 2009, the Turkish economy has positioned itself favorably to outperform the world in recovery. Turkish economy's low reliance on exports (around 25% of GDP) makes a domestic demand driven recovery possible as the inventory cycle continues and consumer confidence improves. A well capitalized (19,20% of GDP[3]) and recently reformed banking system and low household indebtedness (14% of GDP, compared to 61% of GDP in the Euro Area) also save Turkey from having to go through the balance sheet reparation many economies will be facing in the coming years.

The extraordinary disinflation period experienced during the 2009 crisis has allowed the Central Bank of Turkey to ease monetary policy aggressively and cut policy rates by 1025 bps in a period of one year to an unprecedented low of 6,5%. While the

1 TURKSTAT
2 Medium Term Plan Figures
3 Banking Regulation and Supervision Agency

easing cycle has come to an end by now, a moderate inflation outlook allows monetary policy to remain loose and sustain an environment that is highly accommodative to growth.

Turkey's external deficit narrowed from 5,7% of GDP to an expected 1,8% of GDP in 2009. Increasing commodity and oil prices as well as improving demand are expected to widen the deficit to over 3,3% of GDP by 2011[4], a figure that is still well below the five year average of 5,2% between 2004 - 2008.

Despite deterioration in fiscal balances (2009 Budget Deficit -5,5% of GDP[5]) due to crisis measures Turkey's indebtedness is expected to remain at 49% of GDP in 2010, well below the Maastricht criterion of 60%. Turkey has proven to emerge from the crisis in exemplary good shape in terms of public indebtedness, contrary to the sudden surge in public debt and sovereign liquidity woes in the world economy.

External and domestic financing continues to remain a primary issue. Inflows under 'net errors and omissions' compensated for the sharp decline in FDI (2008: 18,3 billion USD, 2009: 7,6 billion USD) and portfolio outflows in 2009. In the absence of such extraordinary inflows, a possible financing gap could markedly increase market vulnerability. This financing gap also puts pressure on Treasury's domestic financing strategy, and the current rollover ratio of over 100% is expected to continue into the future and drag on economic growth.

Despite these issues, and the absence of an IMF funding deal, the Turkish economy has managed to prove its resilience to abrupt economic developments by growing at a remarkable rate of 6% in the last quarter of 2009, easily beating even optimistic expectations and reaching a final annual contraction of -4,7%, well below government forecast of -6,0%. Against this backdrop, the Turkish economy can be expected to make an impressive swing to recovery in 2010, returning to sustainable growth at an annual rate of 4,0% by 2011, according to the government's Medium Term Plan.

Turkey's performance throughout the crisis has also been followed and commended by rating agencies. Fitch, Moody's and S&P have all upgraded Turkey, with Fitch upgrading by two notches and S&P keeping the outlook positive for a possible second upgrade in the near future. With a newfound resilience against political uncertainty, assuming a moderate global growth scenario in 2010, Turkey is very well positioned on track to recovery.

Turkey's Foreign Trade and Bilateral Trade with Germany

Turkey's foreign trade increased 34-fold in the past 29 years from a mere 7 billion USD in 1979 to 240.3 billion USD in 2009, according to the Turkish Statistical Institute. Exports have risen from about 2 billion USD in 1979 to 102.1 billion USD in 2009.

4 Medium Term Plan Figures
5 Ministry of Finance of the Republic of Turkey

Imports, on the other hand, have ballooned from 5 billion USD to 140.7 billion USD in 2009. In 2009, the foreign trade accounted for 243 billion USD.

Increases in exports are mostly driven by exports of textiles and apparel, iron and steel, chemical products, electrical appliances, color television sets, textiles and textile raw materials, nonferrous metals, mineral products, grains, pulses, oil seeds, cement, ceramic tiles and sanitary ware and jewelry, have also boomed. Imports, chiefly in crude oil, natural gas, boilers and machinery, iron and steel, motor vehicles, electrical machinery, plastics, valuable metals and stones, organic chemicals, pharmaceutical products and optical equipment have also rocketed.

Turkey's main export partners in 2009 were Germany, France the United Kingdom, Italy and Irak, whereas it's main import partners were Russia, Germany, China, the United States and Italy.

Exports by selected five countries (Value: 000$)[6]

	2008		2009		Change
Country	Value	(%)	Value	(%)	(%)
Total	132 027 196	100,0	102 164 809	100,0	-22,6
1 Germany	12 951 755	9,8	9 800 269	9,6	-24,3
2 United Kingdom	8 158 669	6,2	5 922 835	5,8	-27,4
3 France	6 617 511	5,0	6 211 991	6,1	-6,1
4 Italy	7 818 988	5,9	5 893 360	5,8	-24,6
5 Iraq	3 916 685	3,0	5 125 933	5,0	30,9

Imports by selected five countries (Value: 000$)[7]

	2008		2009		Change
Country	Value	(%)	Value	(%)	(%)
Total	201 963 574	100,0	140 775 457	100,0	-30,3
1 Russia	31 364 477	15,5	19 710 127	14,0	-37,2
2 Germany	18 687 197	9,3	14 076 186	10,0	-24,7
3 China	15 658 210	7,8	12 655 075	9,0	-19,2
4 USA	11 975 929	5,9	8 568 053	6,1	-28,5
5 Italy	11 011 526	5,5	7 665 804	5,4	-30,4

6 TURKSTAT
7 TURKSTAT

Germany is Turkey's largest export market and the second biggest import market. The German market represented 9,6% of Turkey's exports and 10% of its imports in 2009[8]. Business leaders are of the opinion that Turkey, which ranks as the world's 17th largest economy and 31st largest exporting country, deserves more exposure of trade with Germany.

The trade volume between Turkey and Germany for the period between 2001-2009 is as follows:

Turkey's Foreign Trade with Germany (2001-2009

	Export		Import		Trade Volume	
	Turkey's Exports to Germany	Germany Share of Turkey's Exports	Turkey's Imports to Germany	Germany Share of Turkey's Imports	Turkey's Imports to Germany	Germany Share of Turkey's Imports
	(Million $)	(%)	(Million $)	(%)	(Million $)	(%)
2001	5.366	17,1	5.335	12,8	10.701	14,7
2002	5.868	16,2	7.041	13,6	12.909	14,7
2003	7.484	15,8	9.452	13,6	16.936	14,5
2004	8.745	13,8	12.515	12,8	21.260	13,2
2005	9.455	12,8	13.633	11,6	23.088	12,1
2006	9.686	11,3	14.768	10,5	24.454	10,9
2007	11.993	11,1	17.539	10,3	29.532	10,6
2008	12.951	9,8	18.687	9,2	31.638	9,5
2009	9.788	9,5	14.100	10,0	23.888	9,8
Total	83.040		115.161			

The breakdown of Turkey's exports to Germany between 2008-2009, taking into account the leading ten chapters is as follows[9]:

	Breakdown of Turkey's Exports to Germany (2008-2009): Top Ten Chapters	($)	($)
Chapter	Chapter Name	2008	2009
61	Knitted and crocheted goods and articles thereof	2.233.096.591	1.968.218.347
87	Vehicle other than railway or tramway rolling_stock,parts thereof	2.140.635.631	1.162.575.186
84	Boilers, machinery and mechanical appliances: parts thereof	1.593.734.703	1.100.498.127
62	Non knitted and crocheted goods and articles thereof	992.103.950	800.759.543
85	Electrical machinery and equipment: parts thereof	864.119.593	674.129.547
63	Old clothing and other textile arctiles: rags	492.632.448	457.181.688
8	Edible fruit and nuts: peel of melons or citrusfr uit	361.020.367	357.552.041
20	Preparations of vegetables, fruit or other parts of plants	403.337.382	318.959.288
73	Articles of iron and steel	499.577.953	310.188.674
40	Rubber and articles thereof	353.000.821	287.967.339

8 Republic of Turkey Prime Ministry Undersecretariat of Treasury
9 ?????

The breakdown of Turkey's imports from Germany between 2008-2009, taking into account the leading ten chapters is as follows:

	Breakdown of Turkey's Exports to Germany (2008-2009): Top Ten Chapters	($)	($)
Chapter	Chapter Name	2008	2009
84	Boilers, machinery and mechanical appliances: parts thereof	4.386.237.921	2.903.493.980
87	Vehicle other than railway or tramway rolling_stock,parts thereof	3.588.961.061	2.539.541.461
85	Electrical machinery and equipment: parts thereof	1.591.030.445	1.567.032.877
39	Plastic and articles thereof	1.307.429.554	994.275.740
30	Pharmaceutical products	781.732.036	715.976.492
72	Iron and steel	835.103.089	577.289.457
90	Optical,photographic,cinematographic,measuring checking,precision	709.803.315	542.822.852
48	Paper & paperboard:articles of paper pulp of paper or of paperbo.	446.959.265	410.362.547
29	Organic chemicals	539.759.555	356.237.617
38	Miscellaneous chemical products	401.309.531	318.666.294

3. Foreign Direct Investments

In the last six years in particular, Turkey has started to draw increasing amounts of foreign capital thanks to a rapid recovery from the 2001 crisis, large privatization projects, and prolonged stability coinciding with the excessive liquidity in international markets. In 2008, according to the United Nations Conference on Trade and Development (UNCTAD), Turkey also ranked 23rd in the world and 9th among the emerging markets in terms of attractiveness as an FDI destination. Turkey also ranked 59th out of 181 economies in Ease of Doing Business Rank of the World Bank, 41st out of 121 economies in Forbes Doing Business Index and 15th most attractive economy for the location of FDI in UNCTAD´s World Investment Prospects Survey 2008-2010.

Being the world's 17th and Europe's 6th economy, Turkey has recently been home to numerous significant investments by attracting more than 50 billion USD for the last 3 years.

In 2003, as the new investment law was ratified, all transactions for establishing a company with foreign capital became the same as with local companies. Since all companies established in Turkey within the framework of the Turkish Commercial Code are accepted as Turkish companies, all duties and responsibilities are equal regardless of the nature of capital formation. The new investment law allowed for "national treatment" of foreign investments, protection against expropriation, guarantee of transfers, international arbitration and the employment of expatriates.

As Turkey's new investment law came into force in 2003, there were about 6,500 foreign companies operating in Turkey, whereas as of year ending 2009 there are

23,376 foreign companies operating in Turkey. Despite the global crisis, the amount of FDI was 7.6 billion USD for 2009. FDI inflows in Turkey between the years 1995 and 2009 are as shown in the table below.

FDI Inflows in Turkey Between 1995-2009[10]

Year	Million $
1995-2001	8,469
2002	1,082
2003	1,702
2004	2,785
2005	10,031
2006	20,185
2007	22,046
2008	18,187
2009	7,597

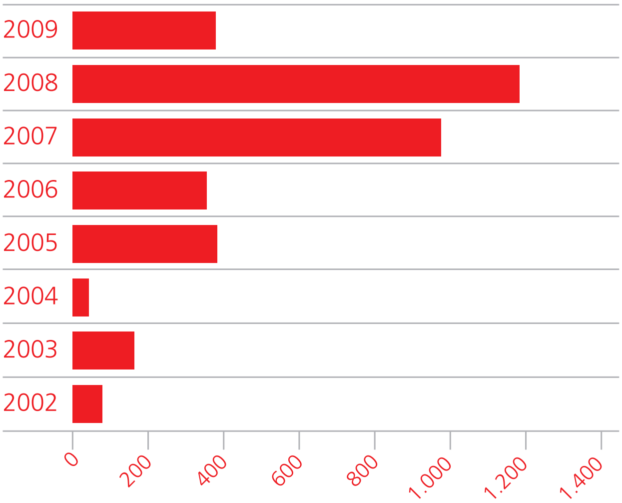
FDI Inflows to Turkey by Home Country 2008-2009

2008		
	Country	Capital
1	UK	2,294
2	Luxembourg	2,086
3	Netherlands	1,755
4	Saudi Arabia	1,244
5	Germany	1,217
2009		
	Country	Capital
1	Netherlands	874
2	Austria	681
3	France	593
4	Luxembourg	579
5	Germany	388

10 Republic of Turkey Prime Ministry Undersecretariat of Treasury

As signalized by the tables above, Germany is among the countries with the most foreign direct investments in Turkey, ranking fifth in the year 2009. The FDI inflow from Germany between the years 2002-2009 is as follows:

German FDI in Turkey (Million USD)



The cumulative sector breakdown of number of the foreign capital financed companies between 1954-2009, as well as for the years 2008 and 2009 separately is as follows[11]:

Sectors	2008	2009	(1954-2009)
	No.of Comp.	No.of Comp.	General Total
Agriculture, hunting and forestry	53	58	367
Mining and quarrying	91	67	476
Manufacturing	471	373	4.119
Manufacture of food products and beverages	38	44	420
Manufacture of textiles	21	17	445
Manufacture of chemicals and chemical products	48	40	454
Manufacture of machinery and equipment n.e.c	46	24	342
Manufacture of motor vehicles, trailers and semi-trailers	21	21	244
Other Manufacturing	297	227	2.214
Electricity, gas and water supply	117	132	464
Construction	372	294	2.197
Wholesale and retail trade	791	883	6.990
Hotels and restaurants	220	173	1.666
Transport, storage and communications	292	255	2.010
Financial intermediation	46	16	293
Real estate, renting and business activities	675	459	3.767
Other community, social and personal service activities	209	156	1.202
Total	3.337	2.866	23.551

11 Republic of Turkey Prime Ministry Undersecretariat of Treasury

To summarize, foreign investors find Turkey attractive for a number of reasons including the following:

- The Government maintains a liberal policy towards all forms of foreign investment
- The market is large and continuously growing
- The location is unique; Turkey is located strategically between the Middle East, Asia and Europe
- The labor force is relatively cheap and abundant
- There is Customs Union with the EU since 1 January 1996
- Turkey has Free Trade Agreements with EFTA and 12 countries (Israel, Macedonia, Croatia, Bosnia Herzegovina, Morocco, Palestine, Tunisia, Syria, Egypt, Georgia, Albania, Montenegro); Free Trade Agreements with additional countries such as Serbia, Chile and Jordan are awaiting the ratification process
- There are several privatization projects under progress

4. Key Information for Foreign Investors:

a. Incentives for investors in Turkey:

A set of incentives specifically designed to encourage investments is available in Turkey. Mainly, these incentives can be classified as follows:

i. VAT Exemption:

VAT can be exempted for imported and domestically procured machinery and equipment.

ii. Customs Duty Exemption:

Customs duty can be exempted for imported machinery and equipment.

iii. Reduces Tax Rate:

A reduced corporate or income tax rate is applied until the cumulative reduction is reached to a certain percentage of the investment. This percentage, which is called the percentage of support for the investment, changes according to region, scale and start date of the investment. (For example, if a 100.000.000 TL investment is qualified for 25 % tax reduction and has 10% percentage of support for investment, the tax rate to be used in calculating the corporate tax will be 25 % lower than the normal tax rate, and this new reduced tax rate will be applied until the total reduced amount reaches to the percentage of support for the investment, which is 10.000.000 TL (10 % of the investment for this example)

iv. Support for Employer's Contribution for Social Security:

Employer's share for social security contribution for those extra employment created by the investment is paid by the Treasury. The wage base for the amount to be paid by the Treasury per worker is the minimum wage. The concept of "extra employment provided" is explained in the Communiqué.

8 Republic of Turkey Prime Ministry Undersecretariat of Treasury

v. Interest Rate Support:

A certain amount of the interest rate of the investment loans for quali_ ed projects may be paid by the Treasury. (For example, if a project is given an interest rate support of 5 points for a Turkish Lira loan with an interest rate of 25%, the investor will pay an interest rate of 20% and the Treasury will pay the remaining 5% to the bank.)

vi. Land Allocation:

Large Scale Investments and investments qualified for regional incentives may be allocated government land free of charge.

In order to enjoy these investment incentives an Investment Incentive Certificate should be allocated by the General Directorate of Foreign Investment, Undersecretariat of Treasury. Incentive measures are applied in the following three legged system. Those investments starting before 31 December 2010 will receive better treatment as can be seen in the following sections. The concept of "starting of an investment" in this context means that certain expenditures such as purchasing of land, building of infrastructure, starting of construction or purchasing of equipment is started. However, if minimum 10 % of fixed investment in the incentive certificate for regional incentives or minimum 5 million TL for Large Scale Investments is realized, the investment is deemed to have started.

i. General Incentives

General incentives will be given to all investments, except those listed in the Decree, which cannot be classified as Large Scale Investments or cannot be supported under regional incentives. Investments to be supported under this heading will receive exemption of customs duty and VAT exemption on imported or domestically procured machinery and equipment. In order to qualify for general incentives the minimum investment should be 1 million TL in Zones I and II, and 0.5 million TL for Zones III and IV.

ii. Large Scale Incentives

Investments in sectors listed in the Decree, and above certain minimum investment amounts are considered Large Scale Investments and may benefit from the following incentives in addition to the General Incentives.

Reduced Tax Rate: A reduced tax rate for projects qualified as large projects is applied according to the following table:

	Starting Before 31/10/2010		Starting After 31/10/2010	
Region	% of Support	Reduction Rate %	% of Support	Reduction Rate %
I	30	50	25	25
II	40	60	30	40
III	50	80	40	60
IV	70	90	45	80

Support for Employer's Contribution for Social Security: Employer's share for social security contribution for projects qualified as Large Scale Investments may be paid by the government for the following durations:

	Starting Before 31/10/2010	Starting After 31/10/2010
Region		
I	2 Years	-
II	3 Years	-
III	5 Years	3 Years
IV	7 Years	5 Years

Land Allocation: Government land may be allocated for projects qualified as large projects.

iii. Regional Incentives

Investments in certain sectors in certain regions may enjoy Reduced Tax Rate, Support for Employer's Contribution for Social Security and Land Allocation in addition to the General Incentives. The list of regions and sectors qualified in each region is listed in the Decree. The specific conditions for regional incentives are set forth in the Decree.

Reduced Tax Rate: The Reduced Tax Rate for projects qualified under regional incentives is applied according to the following Table:

8 Republic of Turkey Prime Ministry Undersecretariat of Treasury

	Starting Before 31/10/2010		Starting After 31/10/2010	
Region	% of Support	Reduction Rate %	% of Support	Reduction Rate %
I	20	50	10	25
II	30	60	15	40
III	40	80	20	60
IV	60	90	25	80

Support for Employer's Contribution for Social Security: Employer's share for social security contribution for projects qualified under regional incentives may be paid by the government for the following durations:

	Starting Before 31/10/2010	Starting After 31/10/2010
Region		
I	2 Years	-
II	3 Years	-
III	5 Years	3 Years
IV	7 Years	5 Years

Interest Rate Support: This is applied to investment loans received from banks and with a minimum term of one year. The maximum amount of loan eligible for this incentive is 70 % of the total fixed investment on the Incentive Certificate. The support is applied as follows:

- For investments in the IIIrd Region, 3 points for Turkish Lira denominated loans, 1 points for loans denominated in or indexed to a foreign currency,
- For investments in the IVth Region, 5 points for Turkish Lira denominated loans, 2 points for loans denominated in or indexed to a foreign currency.

The maximum duration for this incentive is five year.

Land Allocation: Government land may be allocated for projects qualified under regional incentives.

b. Qualified Labor Force

Turkey provides for over 24,7 million young, motivated and well educated professionals. Furthermore, the average growth of labor productivity between 2002-2009 was experienced as 4,4%. Turkey has the 5th largest labor force compared with the EU. It is estimated that there are approximately 450,000 graduates yearly from nearly 150 universities as well as around 550,000 high school graduates, including one third from vocational and technical high schools.

c. Legal Framework for Foreign Direct Investment

Turkey's investment legislation is simple, complies with international standards and offers equal treatment for all investors. Recent amendments to the existing law have improved Turkey's investment environment even further.

i. The Law on Foreign Direct Investment:

The Law on FDI (No.4875) has been in force since June 17th , 2003. The Law not only provides definitions of legal terms such as foreign direct investment and investor, but also lists the rights of foreign investors recognized in various legislations. The main focus of the Law is protection of foreign investors' rights.

The main principles of the FDI Law are as follows:

- Equal treatment for domestic and foreign companies: Companies established with foreign capital in Turkey are regarded as Turkish companies, and therefore entitled to benefit from the same rights and exemptions that are granted to domestic companies engaged in the same field of activity. Foreign companies also have same obligations with the domestic companies.
- No pre-entry or pre-establishment screening requirements: Foreign investors are not required to obtain an additional permit or approval while setting up their business in Turkey,
- Notification: Foreign investors are required to notify the Undersecretariat of Treasury after their establishment. They are also required to give information about changes in capital, transfer of shares and activities in the specific period of time via information forms.
- Unrestricted foreign ownership: 100% foreign ownership is permitted for formation of new businesses and acquisition of existing businesses with the exception of a few specific sectors, which are subject to and regulated by separate/special laws.
- No obligation to choose a specific company form: Foreign entrepreneurs can choose any form of company allowed in the Turkish Commercial Code while setting up an enterprise in Turkey.

The rights of foreign investors are as follows:

- The Transfer of Funds: Foreign investors have freedom to freely transfer profits, dividends, the sale and liquidation proceeds, compensation payments, payments received in relation to license, know-how, technical assistance, management or franchise arrangements and reimbursements and interest payments arising from

foreign loans through banks or special financial institutions.
- Acquisition of Real Estate: Companies may freely acquire real estate or limited rights in rem through a legal entity established or participated by foreign investors in Turkey, provided such acquisitions are permitted for Turkish citizens.
- Dispute Settlement: For the settlement of disputes, foreign investors can apply either to the authorized local courts, or to national or international arbitration.
- Valuation of Non-cash Capital: Non-cash capital is valued in accordance with the provisions of the Turkish Commercial Code. In case that stocks and bonds of companies residing abroad are used as foreign capital share of foreign investors, the values determined by the relevant authorities in the home country, or by the experts designated by the courts of the home country, or any other international institutions performing valuations will be accepted.
- Work Permits for Expatriates: Foreign investors can employ expatriates. Work

8 Republic of Turkey Prime Ministry Undersecretariat of Treasury

permits for expatriates are issued by the Ministry of Labor and Social Security.

- Opening a Liaison Office: Foreign companies can open a liaison office in Turkey provided that these offices do not engage in commercial activities in Turkey.

ii. Bilateral Agreements:

1. Bilateral Agreements for the Promotion and Protection of Investments

Turkey has signed Bilateral Agreements for the Promotion and Protection of Investments from 1962 onwards with countries that show the potential to improve bilateral investment relations. The basic aim of bilateral investment agreements is to establish a favorable environment for economic cooperation between the contracting parties by defining standards of treatment for investors and their investments within the boundaries of the countries concerned. The aim of these agreements is to increase the flow of capital between the contracting parties, while ensuring a stable investment environment. In addition, by having provisions on international arbitration, they aim to prescribe ways to successfully settle disputes that might occur among investors and the hosting state. As of January 1st, 2010, Turkey has signed agreements with 82 countries. The list of effective agreements covers 66 countries, whereas the remaining 16 agreements are in the process of ratification. The agreement with Federal Republic of Germany has come into force on December 5th, 1965.

2. Double Taxation Prevention Treaties

Turkey has signed double taxation prevention treaties with 71 countries. This enables tax paid in one of two countries to be offset against tax payable in the other, thus preventing double taxation. The treaty with Germany has been in effect since December 31st, 1989.

3. Social Security Agreements

Turkey has signed Social Security Agreements with 21 countries .These agreements make it easier for expatriates to move between countries. The number of these countries will increase in line with the increased sources of FDI. The agreement with Germany has been in force since November 1st, 1965.

4. Customs Union and Free Trade Agreements

A Customs Union Agreement between Turkey and the European Union has been in effect since 1996. The agreement allows trade between Turkey and the EU countries without any customs restrictions. The EU-Turkey Customs Union is one of the steps towards full Turkish membership of the EU itself. Turkey has FTAs with 16 countries, of which two are in the process of ratification. creating a free trade area in which the countries agree to eliminate tariffs, quotas and preferences on most goods and services traded between them. This framework explains why many global companies are now using Turkey as a second supply source and manufacturing base, not only for the EU and rapidly growing Turkish markets, but also for the Middle East, Black Sea and North African markets, with the added advantage of a relatively low cost but well-educated labor force, coupled with cost-effective transportation.

SECTION II

KEY INDUSTRIES FOR INVESTMENT

1. Automotive

Turkey produced 78,335 motor vehicles in January 2010, a spectacular 97% increase from the first month of 2009, in the fifth monthly production increase in the last six months, the Automotive Manufacturers' Association (OSD), a trade group representing the country's top 15 motor vehicle producers, reported. Nearly 80% of Turkey's motor vehicles are exported

In 2009, Turkey produced 844,466 motor vehicles, including 510,931 automobiles, the lowest figure since 2004. Turkey manufactured a record 1,171,917 motor vehicles in 2008, a three percent increase from 2007 and more than a fivefold increase from 1990, the Automotive Manufacturers' Association (OSD) reported.

Today, 14 out of every 1,000 motor vehicles produced in the world are manufactured in Turkey.

DEVELOPMENT IN THE AUTOMOTIVE MARKET (2000-2009) ('000 Units)[12]

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Production	286	357	562	862	914	1,024	1,132	1,171	884
Exports	202	262	360	518	561	706	828	920	637
Sales	195	175	401	754	763	670	641	526	575
Imports	94	83	223	436	438	384	359	306	267
Share of Exports, %	71	73	64	60	61	69	73	79	72

All major foreign automotive companies have operations in Turkey, including Ford, Toyota, Mercedes Benz, Hyundai, MAN, Renault and Fiat. Turkey has 15 large motor vehicle manufacturers. Most of these companies in the sector are either foreign-owned or joint ventures with foreign manufacturers. Some produce under license agreements with foreign manufacturers. In addition to passenger cars, farm tractors, trailers, light and heavy-duty trucks, pick-up trucks, passenger buses, mini and midi buses are produced in Turkey. The country also has thriving components, parts and tire industries.

Many of the vehicles produced in Turkey are domestically designed and manufactured only locally and nowhere else.

12 Automotive Manufacturers' Association (OSD)

TURKISH AUTOMOTIVE PRODUCTION (1990-2010)[13]

Year	Total Vehicle Production	Automobile Production
1990	209,150	167,556
1991	241,838	197,574
1992	322,931	265,245
1993	420,625	348,095
1994	243,174	212,651
1995	282,440	233,412
1996	276,747	207,757
1997	344,352	242,780
1998	344,502	239,937
1999	297,862	222,041
2000	430,947	297,476
2001	270,685	175,343
2002	346,565	204,198
2003	562,466	294,116
2004	862,035	447,152
2005	914,359	453,663
2006	1,026,427	545,682
2007	1,132,932	634,883
2008	1,171,917	621,567
2009	884,466	510,931
2009*	39,763	23,838
2010*	78,335	46,810

The automotive industry has developed spectacularly since the launching of Turkey's customs union with the European Union (EU) in 1996, with most of world's major manufacturers deciding to establish production bases in Turkey for sales both to domestic and export markets. A boom in exports has driven production increases.

13 Automotive Manufacturers' Association (OSD) (*Production figures for January)

2009 MOTOR VEHICLE PRODUCTION IN TURKEY BY COMPANIES (IN UNITS)[14]

Companies	Passenger Cars	Commercial Vehicles	Agricultural Tractors	Total
Oyak-Renault	277,572			277,572
Tofas	94,179	156,911		253,090
Ford Otosan		173,456	173,456	
Toyota	72,284			72,284
Hyundai Assan	48,652			48,652
Honda Turkey	18,264			17,123
Turk Traktor			14,296	14,296
Karsan		8,313		8,313
M. Benz Türk		6,492		6,492
B.M.C.		3,167		3,167
Otokar		2,560		2,560
Temsa		2,414		2,414
Anadolu Isuzu		1,817		1,817
MAN Turkey		1,544		1,544
Hattat Tarım			565	565
TOTAL	510,931	358,674	14,861	884,466

The nation in 2008 ranked sixth biggest motor vehicle manufacturer in Europe and 16th largest in the world, according to the Paris-based International Motor Vehicle Manufacturers' Association (OICA). In Europe, only Germany, France, Spain, England, and Russia manufactured more motor vehicles than Turkey in 2008.

TURKISH MOTOR VEHICLE PRODUCTION IN 2008-2009 IN UNITS[15]

	2008	2009	% Change
Automobiles	621,567	510,931	-18
Commercial	525,543	358,674	32
Vehicles			
--Midsize Trucks	28,904	7,403	74
--Light Trucks	7,896	843	-89
--Pick up Trucks	449,434	330,044	-27
--Buses	7,581	5,931	-22
--Minibuses	21,123	11,829	-44
--Midibus	10,605	2,624	-75
Transport Vehicles	1,147,110	869,605	-24
Farm Tractors	24,807	14,861	-40
Total Motor Vehicle Production	1,171,917	884,466	-25

14 Automotive Manufacturers' Association (OSD)
15 Automotive Manufacturers' Association (OSD)

Turkey is Europe's third biggest producer of light commercial vehicles (LCVs-pick up trucks and minibuses) after Spain and France and the largest manufacturer of passenger buses. It is expected to become the largest producer of light commercial vehicles in Europe and move up a couple of scales in car production in the next couple of years as a result of new massive investments. A major project in this field is the development of the Minicargo vans by automaker Tofaş. Under this project, the company has spent 410 million USD to design and produce the commercial vehicles for Fiat, PSA Peugeot and the Citroen Group. In 2008, it began turning out 135,000 commercial vehicles a year for eight years. Ninety-five percent of production is being exported, one-third to Fiat, one-third to PSA Peugeot and one-third to Citroen. Turkey's biggest motor vehicle manufacturer, Ford Otosan, a joint venture between Ford and Turkey's Koç Group began exporting its Ford Transit LCVs to the U.S. starting in 2009, and motor vehicles.

GLOBAL MOTOR VEHICLE PRODUCTION BY TOP MANUFACTURING 16 COUNTRIES IN 2006-2008 (IN NUMBER OF VEHICLES)[16]*

	Country	2006	2007	2008
1	Japan	11,484,233	11,596,327	11,563,629
3	China	7,188,708	8,882,456	9,345,101
3	USA	11,263,986	10,780,729	8,705,239
4	Germany	5,819,508	6,213,460	6,040,582
5	S. Korea	3,840,102	4,086,308	3,806,682
6	Brazil	2,611,034	2,970,818	3,220,475
7	France	3,169,219	3,019,144	2,568,978
8	Spain	2,777,435	2,889,703	2,541,644
9	India	2,019,808	2,306,768	2,314,662
10	Mexico	2,045,518	2,095,245	2,191,230
11	Canada	2,572,292	2,578,238	2,077,589
12	Russia	1,508,358	1,660,120	1,790,301
13	England	1,648,388	1,750,253	1,649,515
14	Thailand	1,296,060	1,238,460	1,393,742
15	Turkey	987,780	1,099,414	1,147,110
16	Italy	1,211,594	1,284,312	1,023,774

Turkey's motor vehicle industry is export-oriented-nearly 80% of all automobiles and 69% of all commercial vehicles are sold abroad. About 70% of all of its vehicle exports are destined to the nations of European Union.

The OSD has set a target to double production by 2012 to over 2 million vehicles and make the automotive industry the biggest sector of Turkey, overtaking the combined apparel and textiles, carpet and leather industries. According to the OSD, the industry could employ 600,000 people, three times more than it does today and earn 60 billion

16 The International Organization of Motor Vehicle Manufacturers (*Includes Automobiles and Commercial Vehicles Only)

USD annually from exports. It earned a record 21.889 billion USD in exports in 2008, a 15% jump from 2007, according to the Uludağ Exporters Association, a trade group.

GLOBAL AUTOMOBILE PRODUCTION BY TOP 19 MANUFACTURING COUNTRIES IN 2006-2008 (IN NUMBER OF VEHICLES)[17]

	Country	2006	2007	2008
1	Japan	9,756,515	9,944,637	9,916,149
2	China	5,233,132	6,381,116	6,737,745
3	Germany	5,398,508	5,709,139	5,526,882
4	USA	4,366,220	3,924,268	3,776,358
5	S. Korea	3,489,136	3,723,482	3,450,478
6	Brazil	2,092,029	2,388,402	2,561,496
7	France	2,723,196	2,554,000	2,145,935
8	Spain	2,078,639	2,195,780	1,943,049
9	India	1,473,000	1,707,839	1,829,677
10	Russia	1,177,918	1,288,652	1,469,429
11	England	1,442,085	1,534,567	1,446,609
12	Mexico	1,097,619	1,208,097	1,241,288
13	Canada	1,389,536	1,342,133	1,195,436
14	Iran	800,000	882,000	940,870
15	Czech Rep	848,922	925,778	933,312
16	Poland	632,300	695,000	840,000
17	Belgium	881,929	799,190	680,131
18	Italy	892,502	910,860	659,221
19	Turkey	545,682	634,883	621,567

COMMERCIAL VEHICLE PRODUCTION BY TOP TEN MANUFACTURING COUNTRIES IN 2006-2008[18]

	Country	2006	2007	2008
1	USA	6,897,766	6,856,461	4,928,881
2	China	1,955,576	2,501,340	2,607,356
3	Japan	1,727,718	1,651,690	1,647,480
4	Thailand	895,607	929,960	992,433
5	Mexico	947,899	886,148	949,942
6	Canada	1,182,756	1,236,105	882,153
7	Brazil	ua	ua	658,979
8	Spain	698,796	693,923	598,595
9	Turkey	442,098	464,531	525,543
10	India	546,808	598,929	484,985

17 The International Organization of Motor Vehicle Manufacturers (OICA)
18 The International Organization of Motor Vehicle Manufacturers (OICA)

TURKISH MOTOR VEHICLE EXPORTS BY COMPANIES (2007-2010) IN NUMBER OF UNITS[19]

Company	2007	2008	2009	2010*
Oyak Renault	204,458	252,232	222,278	20,395
Tofaş	146,177	209,443	168,353	20,278
Ford Otosan	221,741	217,876	128,388	8,227
Toyota	154,386	119,586	69,097	7,415
Hyundai Assan	69,224	61,000	17,136	1,593
Honda Turkey	7,732	34,926	9,172	887
Karsan	1,632	482	7,287	804
Turk Traktör	5,761	9,648	8,808	604
Mercedes Benz Turk	8,708	9,083	3,317	168
Anadolu Isuzu	750	1,042	565	135
MAN TURKEY	1,699	1,538	1,180	34
Temsa	1,151	1,245	1,114	29
BMC	1,524	1,189	582	29
Otokar	1,115	619	501	5
Hattat Tarım Mak.	0	53	77	0
Total	829,879	920,763	637,855	60,603

Prospects for the Automotive and Component Industries

Despite increasing exports, domestic demand is crucial for future investments in the automotive industry. In this framework, the level of income, interest rates and consumer confidence are critical determinants in the development of domestic demand. Due to its low saturation level, there is a high potential in domestic demand for automotive products. The high quality of the industry in terms of production technology, innovation capacity and human resources is appreciated worldwide. Geographical position and logistic opportunities make Turkey an attractive location for automotive investments. Turkish companies are aware of the importance of these factors for global competition. Turkey is also showing good progress in harmonizing its legislation and regulations on the automotive sector with those of the EU in matters such as fair competition, consumers, patents, machinery directives etc. The country's legislation is generally in line with international rules of free trade within the context of the Customs Union and WTO (World Trade Organization).

2. White Goods

The production and exports within the white goods industry in Turkey, like most other industries, experienced a leap parallel to the liberalization in the economy in the beginning of 1980's as well as the export oriented growth strategy. The reduction of customs duties on imported durable goods in 1989, followed by the Customs Union

19 Automotive Manufacturers' Association (OSD) (*For January only)

agreement that came into force between Turkey and EU at the beginning of 1996, caused for foreign competition, which in return brought with it the need for Turkish producers to increase the production quality and expand their product range. Turkey, with a population of over 70 million offers for a very attractive market opportunity for durable good producers. According to the 2007 census in Turkey, the average population per household is 4,7, a rate that is lower in regions with a higher income level. Moreover, considering the fact that about 500,000 couples get married per year and that the number of households in Turkey increase at a rate of 2,5, which is higher that the rate in developed countries (1,5%), signalize that the demand for white goods in general will continue to grow, taking into account a stable economic environment. Turkey, as similar developing countries with a young population and an increasing GDP per capita, are expected to be the main target markets for the white goods industry in the future.

Worldwide Export By Country (million USD)[20]

	2005	2006	2007	2008
China	11.125	13.527	15.934	17.929
Germany	6.117	6.662	7.043	7.211
Italy	6.000	6.177	6.756	6.581
Mexico	1.383	2.270	2.189	2.834
Turkey	1.640	2.036	2.532	2.766
Poland	1.540	1.905	2.518	2.709
South Korea	2.916	2.789	2.463	2.477
USD	2.183	2.345	2.429	2.348
Tailand	1.624	1.898	2.066	2.260
France	1.436	1.417	1.607	1.658
Spain	1.444	1.365	1.410	1.553
Hong Kong	1.376	1.113	1.093	1.078
Slovenia	739	803	993	1.066
Singapore	716	754	933	976
Sweden	794	859	972	955
Malezia	635	727	849	846
Hungary	557	676	805	652
Switzerland	408	442	567	632
England	640	640	698	628
Holland	480	544	613	575
Others	6.190	6.350	7.314	7.393
TOTAL	49.985	55.363	61.871	65.157

20 ???????

Production of White Goods in Turkey (1.000 Units)[21]

	2005	2006	2007	2008	2009
Refrigerator	5.538	6.740	6.865	6.002	6.094
Washing Machine	4.382	5.277	5.128	4.739	5.015
Dish Washer	783	1.180	1.842	2.140	2.207
Oven	1.660	2.201	2.363	3.039	2.680
TOTAL	12.363	15.398	16.198	15.920	15.996

The production of white goods in Turkey is mostly concentrates in the Marmara Region, Aegean Region and Central Anatolian Region.

Turkish white-good manufacturers have developed their manufacturing activities which once started with simple assembly lines, and progressed into a level in which they can create and even export their own design and technology. The sector also created strong brands with strong customer ties and strengthening its existence in external markets, particularly in EU.

Besides the estimated 50 or more medium and large scaled producers, there are approximately over 500 companies that are involved in the white goods supplier industry that produce the spare parts. The leading white goods producers in Turkey are as follows:

- Altus
- Arçelik
- Arçelik LG
- Ariston
- Aygaz
- Bosch
- Candy - Süsler
- Demirdöküm
- Fagor
- Indesit Company
- Klimasan Metalfrio
- Kumtel
- Profilo
- Sanko - Auer
- Simens (BSH Profilo)
- SFA Frigoglass
- Uğur
- Vestel

21 Association of White Goods Industrialists of Turkey (TÜRKBESD)

The white good market in Turkey allows for increased FDI as well as foreign currency inflow into the country.

Turkish consumers, always in pursuit and preference of new products, do prefer Turkish-made products though customs are open to all kinds of products from all over the world, which underlines the success of the sector within domestic market. The high customer trust that is prevalent in the white goods sector in Turkey has driven loyalty whish in return created high brand loyalty. Turkish brands within the white goods industry are increasingly establishing a wider presence in the international arena, especially in the EU market. The total number of sales in the white goods market in the EU (including all four main products, namely, refrigerators, ovens, washing machines and dish washers) per year is estimated to be 50 million, 15% of which are constitute products made in Turkey.

The sector is particularly addressing the issue of environment and closely following the environmental regulations. New generation products provide less power, water and detergent consumption and decreased noise-emitting levels.

Another important reason for success of the sector is the post-sales services. Post-sales services are handled with due diligence and regulations are closely followed in this area. Widespread service networks also attract interest of customers in white goods.

Turkish white goods sector has fuelled its efforts towards export within the last decade. Data from Undersecretary of Foreign Trade reveal that export figure of white goods sector was 2.8 billion USD in 2007. A comparison with the export figure of the year 2006 shows that there is a 19.5% increase in total export of the sector in 2007.

Turkish white goods sector is currently exporting to over 100 countries worldwide. The main export advantages include, advanced logistical infrastructure and the geographical proximity to Europe, which is where the majority of the export is concentrated. All goods are produced within the framework of EU regulations and standards. The average yearly growth rate of the white goods sector in Turkey is around 20%.

Turkish White Goods Exports by Country (million USD)[22]

	2007	2008	2009
England	362	368	419
French	273	305	329
Germany	181	253	265
Italy	184	194	170
Spain	166	157	145
Iraq	69	81	100
Poland	57	79	68
Sweden	27	44	61
Romania	84	91	56
Israel	54	51	53
Iran	45	51	52
Greece	63	59	44
Russia	68	87	39
Holland	37	43	38
Algeria	44	43	37
Libya	18	37	34
Morocco	26	31	34
Azerbaijan	39	44	32
Portugal	33	35	31
Belgium	29	30	31
Ireland	22	22	25
Bulgaria	40	35	23
Denmark	49	21	22
Australia	17	23	22
UAE	20	23	21
Austria	20	19	19
USA	20	36	18
Hungary	19	18	18
Georgia	30	31	16
Ukraine	58	41	15
Kazakhstan	29	14	15
Turkish Republic of Northern Cyprus	16	13	15
Egypt	6	11	14
Turkmenistan	8	13	14
Republic of South Africa	22	19	14
Croatia	20	23	13
Bosnia Herzegovina	20	26	13
Tunisia	14	16	12
Macedonia	9	13	12
Syria	6	5	11
Others	226	264	208
TOTAL	2.532	2.766	2.578

22 Turkish Statistical Institute (TÜİK)

The strengths of the white goods industry in Turkey include:

- Strong supplier industry
- Trained and professional personnel
- High production capacity
- Geographical proximity to Europe and developing countries
- Production hub of leading European producers
- Established R&D studies and laboratories
- Know-how of expert personnel
- Competitive industry structure
- Wide network of dealer and post-sales services

3. Machinery

The machinery manufacturing industry has a vital role in the economy and the development of a country since it enables all the other industries to perform. The final product for machinery manufacturing industry is utilized as a mean, or tool, in the production line of the other industrial sectors.

This sector is rather young in Turkey. Although the first mechanical industry establishments have been initiated in 1930's they were mainly constructed to strengthen the defense capability of the nation. The next basic investments in the sector are seen in 1950's as state economical enterprises. The private sector companies started investing in industry in late 1950's.

Today, the machinery manufacturing industry reached to a level of 18.2 billion USD in 2009, in production following an impressive increase in the last decade.

Machinery x 1000 US $

	2003	2004	2005	2006	2007	2008	2009	2010 (Est.)
CONSUMPTION1	19.322.800	23.949.457	26.963.049	30.696.861	33.550.824	31.095.482	26.067.648	26.067.648
Change %	19,5	23,9	12,6	13,9	9,3	-7,3	-16,17	-16,17
PRODUCTION1	14.300.000	17.500.000	17.675.000	20.114.150	21.361.227	20.335.888	18.220.956	18.220.956
Change %	21,4	22,4	1,0	13,8	6,2	-4,8	-10,40	-10,40
EXPORT2	3.118.511	3.913.354	4.475.050	5.657.998	7.911.397	9.407.063	7.459.801	7.459.801
Change %	50,1	25,5	14,4	26,4	39,8	18,9	-20,70	-20,70
IMPORT	6.474.241	8.141.311	10.362.811	13.763.099	16.240.709	20.100.994	15.306.493	15.306.493
Change %	25,8	27,3	32,8	18,0	23,8	0,33	-24,10	-24,10
MİB 1, TÜİK 2								

Except 841821, 841829, 8469-8473

Construction and material handling machines, machine tools and pumps, compressors, heating, ventilation and air conditioning equipment, are the strong sub sectors in machinery production. Private companies dominate the sector. Only a small number of government owned companies are operating in defense and sugar machinery industries. Most of the companies in the sector are export oriented and majority of the export goes to EU and USA.

The rate of sales of locally produced machinery in the domestic market is also increasing as well as the exports. The overall machinery production has increased 1,5 times, and the exports have increased 3 times between 2003 and 2008. Machinery export is in the 4th rank in total export of Turkey. Turkey is 6th biggest machinery manufacturer among European countries, according the report, which prepared for European Commission.

The foreign trade with EU and Turkey-EU Custom Union exerts a considerable effect on machinery sector. Heavy competition is faced by the sector both domestically at home, and abroad. European legislation like Machinery Directive and CE Marking regulations affects the companies as well. Due to the economical situation in the country the machinery manufacturers are forced to export their products. Therefore the companies are paying more attention to gaining new markets, participating related industry exhibitions and as a result of these efforts the export volume is substantially increasing. In the last five years the export volume has almost tripled, and many new markets in EU and Middle East have been gained.

The machinery industry is characterized by a large number of (over 95%) small and medium sized enterprises. Most of the companies are family owned and operated. According to general census of the industry, there are 16.000 companies and approximately 500.000 employees in the sector. This figure covers micro-sized firms as well. Rather established companies having more than 20 employees are assumed to be around 3000, and the average size of the companies is around 50 employees per company.

Although the production in machinery manufacturing has increased a lot, the import also has increased considerably since 60 percent of domestic consumption is supplied by imports. Almost every kind of machinery is imported. Main sub groups in imports are construction and mining equipments, machinery accessories, textile machinery and machine tools.

The strengths of the machinery sector in Turkey include the relatively cheap qualified labor force, small size and flexibility of the companies

Turkey, due to its geographical proximity to industrially less developed neighboring countries, has an advantage which creates marketing opportunity for the manufacturers. The large domestic market, increasing export rates and withdrawing of the European

8 Republic of Turkey Prime Ministry Undersecretariat of Treasury

manufacturers from the heavy industry also create opportunities for Turkish manufacturers in the machinery sector.

Turkey is very advanced regarding the production of some specific types of machinery and the 9th largest machine tool manufacturer and ranks 11th as an exporter among the 15 CECIMO (European Association of the Machine Tool Industries) member countries. Within the machine tools production, sheet metal processing machines constitute the largest share in the production.

Besides machine tools, Turkey is also advanced in the areas of construction machinery, cranes, lifting and transporting equipments, pumps and compressors, food industry machinery, packing, wood working, textile, leader processing machinery, furnaces, air-conditioning and hoisting and handling machinery manufacturing industries.

Machinery manufacturing is mainly concentrated in the Marmara Region. As with respect to the machine tools, the production is rather realized in Istanbul, Bursa, Konya and Izmir. The production of agricultural machinery is performed in various cities.

The particular importance of the machinery manufacturing industry for Turkey is its promising export potential. A consumption value of 261 Billion USD, production of 18,2 billion USD and an export value of 7,5 billion USD, that Turkish machinery market reached in 2009 points out the important role of Turkey in this sector. Although the machinery manufacturing sector has shown a successful performance, the value of imports is still very high causing negative trade balance.

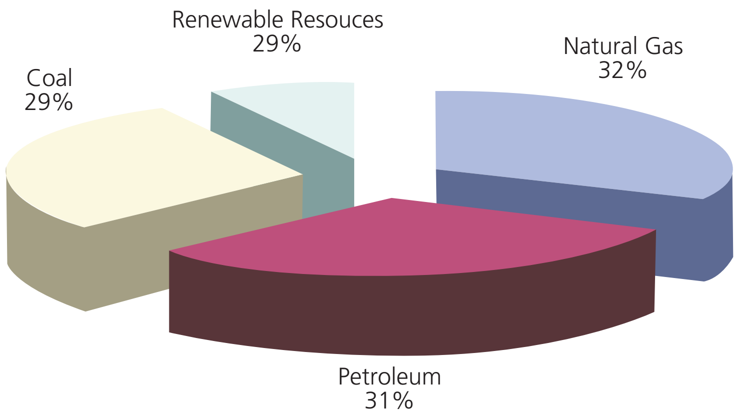
4. Energy & Resources

Turkey is an important energy consumer as well as an important hub for energy supplies transportation. Turkey's primary energy consumption was 106 million TOE in 2007. 29.2 million TOE was produced at home and the rest was imported. Primary consumption is expected to rise 6% annually (average annual increase in the world is 1.8%) and to reach 220 million TOE by 2020. Total 130 billion USD of investment is needed in the energy field by 2020 in Turkey to meet the energy needs.

Except coal (mostly lignite), Turkey currently has very limited mineral resources. The Turkish Petroleum Corporation (TPAO) has invested 500 million USD in exploration in the Black Sea region where 10 billions barrels of potential reserves are thought to be lying. Although Turkey mostly imports oil and natural gas, it is becoming a hub for energy supplies. There is Baku-Tbilisi-Ceyhan (BTC) and Iraq-Turkey crude oil pipelines which bring oil from Azerbaijan and Iraq. BTC's capacity was 1 million barrels in 2008. With some technical changes it will reach to 1.2 million barrels in the year 2009. Capacity of the Iraq - Turkey pipeline is 1.6 million bpd. Also Trans - Anatolian pipeline project is planned to carry Russian and Kazakh oil from North of Turkey to the South beginning 2010. From Ceyhan, a big port in the South of Turkey where the oil Trans - Anatolian pipeline ends, the oil will be shipped to other parts of the world. Also there is Tupras refinery in Ceyhan. The crude oil is refined at Tupras and refined products are sold both domestically and internationally. So Ceyhan area on the Mediterranean coast has become a focal point of the international crude oil trade.

There are two Russian-Turkish natural gas pipelines (West and Blacksea), one Azerbaijani-Turkish natural gas pipeline (Baku-Tblisi-Erzurum) and one Iranian-Turkish natural gas pipeline transmits natural gas to Turkey. 32.2 billion cm3 of natural gas are imported from these pipelines. Additional 5.6 billion cm3 of natural gas are imported in LNG form from Algeria and Nigeria. Already one fourth of Azeri natural gas goes to Greece. Also, the Nabucco gas pipeline which is going to connect Central Asian natural gas to Central Europe is to go through Turkey. Turkey is also building a link to the Egytian - Jordan - Syria - Lebanon gas pipeline. The link will be connected to the Turkish natural gas network. Another under sea pipeline is planned to be built between Ceyhan and Israel. The gas from the pipeline will be transferred to India from Red Sea by ship. Energy Market Regulatory Agency (EPDK) is the independent regulator who controls the standards of the electricity, natural gas, petroleum and LPG in Turkey.

Energy Consumption in Turkey According to Resources (2007)



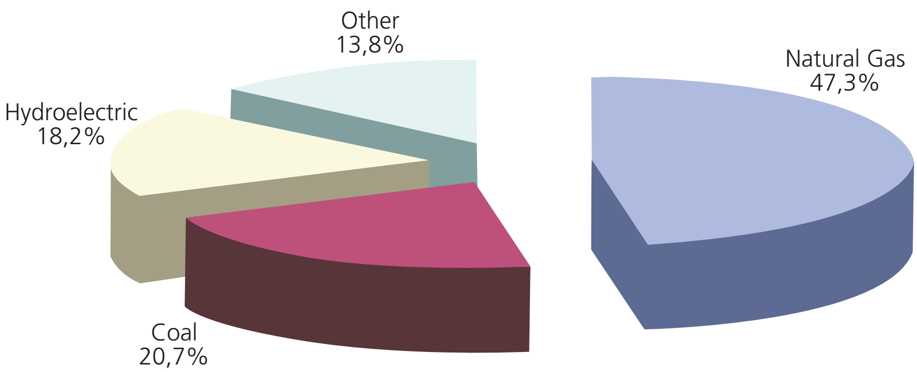
Source: Turkish Ministry of Energy and Natural Resources

Turkey's demand for electricity is growing at a fast rate, namely second after China. Between the years 2002 and 2007, annual average growth in electricity demand grew by 8 %. However, in 2008, with the affects of the global crisis this rate fell to 3.5 %. As iron, steel, cement and textile industries slowed down, the commercial use of electricity decreased as well. The primary energy consumption in Turkey is expected to increase by 4,3% annually, reaching 220 million TEP in 2020 (world average annual increase is 2,6%).[23]

In order to match the increase in demand private sector investments in this field accounted for nearly 3 billion USD in 2009 and are expected to reach 4 billion USD in 2010.

23 Ministry of Energy and Natural Resources of Turkey

Main Resources in Electricity Production (2007)



Source: Turkish Ministry of Energy and Natural Resources

Turkey has 46.126 MW of installed capacity.

The objective of the government is to achieve the following targets by 2023:[24]

- To be able to make complete use of our potential of indigenous coal and hydraulic resources,
- To make maximum use of renewable resources,
- To incorporate nuclear energy into electricity generation within the period until 2020,
- To secure rapid and continuous improvement in energy efficiency in a way that parallels EU countries,

According to the Kyoto Protocol signed on behalf of Turkey in the year 2008, Turkey needs to increase the renewable energy production in coming years. With the changes in regulatory framework, the Turkish government also gives buying guarantees with increased prices. As a result of this new attempt many international and local companies have started to invest in the field. Some of these companies include EnBW, RWE, General Electric, BP and Spain's Iberdrola.

24 Ministry of Energy and Natural Resources of Turkey

SECTION III

TURKEY AND NEIGHBORING COUNTRIES:
POTENTIAL FOR COOPERATION BETWEEN TURKEY AND GERMANY

Germany is one of the main economic partners of Turkey. The number of German firms operating in Turkey has reached 4,256 in June of 2010.

Joining resources of German and Turkish business strength such as technology and funds as well as advanced labor force, geographical proximity and Turkish business experience in Eurasia and Middle East may create mutual gain. Therefore, the cooperation between Turkey and Germany in terms of trade and investments can stenghten by tapping potentials of undertaking joint ventures both in Turkey and in third countries.

Governments are crucial actors in providing the basic requirements to do business in Southeastern Europe, Middle East, Eurasia and Northern Africa. The structured dialogue between the Turkish and German governments in supporting the private sector with the necessary framework agreements to facilitate and to supervise the activities could bring new practices and models for cooperation in the region.

The main fields of cooperation in the region include but are not limited to construction (housing, pipeline for road, railway, electricity production, transmission and distribution, port rehabilitation, water treatment plants etc) and energy. EU funded infrastructure projects in the region are an area to consider for Turkish and German collaboration. Moreover there are opportunities for investment in iron-steel, cement and food production. These may take place both in Greenfield investments or through privatization.

SECTION IV

SUCCESS STORIES

The success stories in this part will be given in three groups. The first group emphasizes German capital that has entered the Turkey market and has achieved sustained, profitable growth. The second group includes German-Turkish JV's that have experienced the harmony of the two business cultures and realized their targets. The third group showcases Turkish SME's that have improves their market share with their own capital and are positive about finding a German partner.

1 German Capital in Turkey: "Feels Good to be in the Turkish Market"

Bosch Termoteknik
İrfan Bayrak, Factory Manager

One of the world's leading brands Bosch launched its operations in Turkey about 12 years ago by merging with a company established with Turkish capital named ELBO. In 1998, German company Bosch decided to enter in Turkish market and purchased ELBO; a Turkish company established 7 years ago, and gained a major market share in Turkey. Bosch Termoteknik established in 1991 as ELBO and became a 100% German company after merging with Bosch. Bosch Termoteknik Factory Manager İrfan Bayrak says they continued as ELBO for 7 years after 1991 and in this period they strived to develop the company. He points out 'Bosch became one of the most important brand in world after carrying out its activities for long years, in 1998 Bosch launched its activities in Turkey by cooperating local companies. In this term, they had a very successful process by purchasing ELBO and entering Turkish market, changing the company name into Bosch Termoteknik.'

Bayrak implies that Bosch's one of the important strategies is cooperating local companies to operate in foreign markets. He says 'Bosch has a distinctive line. A lot has changed in the company after merging in 1998. We began to be attentive to certain subjects like adopting the working system of Bosch, learning their manners, developing human resources and spreading their own values. Bosch is an important brand and has a great quality; we tried to provide and sustain it. This was important for both of us.'

Bayrak suggests that the factory in Bursa established during 1971 - 1972 continued to grow and became a role model for other companies. Since the market was small they started exporting and this brought success in short time. Bayrak also adds that there is neither German nor Turkish culture in the company, the two cultures and working habits combined together and he believes working this way brought success and a better working environment. 'Systematic working style of Germans, confidence and solidity of Turks combined and created an important synergy Bayrak defines. He suggests it is not easy to achieve quality production and relevant cost but Turkish-German partnership has good results. Saying Turkey has a developing and renovating market, Bayrak emphases Turkey's strategic location on being both in Asia and Europe. Bayrak implies, cooperation with Asian companies is going well and in this sense Turkey is an indispensable source.

2. German-Turkish JV's: "Feels Good to Cooperate with a Turkish Partner in the Turkish Market"

Borusan Mannessmann
Bülent Demircioğlu, General Manager

Mannesmann Sümerbank was the first steel pipe manufacturer in Turkey, which started production in 1957. Borusan Boru, which was founded in 1985 became the second first steel pipe manufacturer in Turkey. The long lasting competition between the two companies vitalized the sector for many years. Borusan Boru increased its competitive strength due to the JV with Mannesmannröhren Werke AG, one of Germany's leading companies, in the field of seamy steel pipe production in 1998. The JV Borusan Mannesmann Boru is currently continuing its operations via the factories in Gemlik, İzmit, Halkalı, Vobarno and Gebze. Borusan Mannesmann Boru that has started its operations with an annual production capacity of 2 thousand tons is currently reached a capacity of 925 thousand tons.

Bülent Demircioğlu, General Manager of Borusan Mannesmann, while mentioning the joint venture of the companies, he claims after a bittersweet competition of 40 years, enabled for a capacity that was larger than the capacity of both companies combined. He even tells about the the match game between Borusan Boru that established in 1958 and Mannesmann workers in that term. Demircioğlu continues by saying that the two companies had come together for very different reasons in 1995. Borusan Boru had started to contact the high level representatives of Mannesmann in Germany to consult them regarding the improvement possibilities regarding operations.

Saying the meetings that were held with Mannesmann representatives resulted in an idea that proved satisfactory for both companies, Demircioğlu indicates; 'The idea was formed around collaborating with competitors to develop the business. A process had begun with the Mannesmann Board of Directors and Deputy General Manager in Germany, where brainstorming was done as to how the two companies could cooperate and whether a JV was possible. This process lasted for about three years. The Privatization Administration of Turkey started the privatization procedure of Sümerbank in 1997. At that time German share in Sümerbank was 53%, whereas 47% share was held by Borusan. It still has 4% privatization share. We applied for 43% of Sümerbak's share but Germans also had rights in corporation status. Shareholder does not have the right to sell its shares to a 3rd person without their permission, this slows down the process. They claim that they want to do business with us but this cannot be done with one company; they suggest combining the business under Borusan and offered us to buy the shares and join two companies to split the shares. This was reasonable for us too. This negotiation lasted 1-1.5 years, we purchased the shares from privatization and at last the shares were distributed in established company and 'Borusan Mannesmann Boru' with shares of 77% Borusan and %23 Mannesmann. We celebrated the JV over a dinner on December 1998.'

8 Republic of Turkey Prime Ministry Undersecretariat of Treasury

Demircioğlu suggest it is easy to do joint business with Germans and continues; 'Since then it's been 11 years, we have a good cooperation. We purchased a factory in Italy together, and now we work together on a factory in Abu Dhabi. It is easy to make business with institutionalized companies which have a certain level of culture. They are aware of the requirements of this business, and since we are above that level we have a good colloboration and very pleased to do business. As I said, if the company you are working with has a certain level of culture and corporate knowledge it is easy to work with a German Partner. '

Mannesmann has a valuable brand name in the market says Demircioğlu, he implies as Borusan Mannesmann, they are using the brand name very often and both companies are being highly respected almost all around the world. In this subject Demircioğlu states; 'We benefited from their brand name in export markets. At first in international gas and oil tenders, then factory in Italy, we make cold drawn-tubes - precision pipe in Europe, we provide material automotive supply industry, in all these businesses we use their name. So they have an important value added.'

In Turkish-German partnership, especially with the effect of German culture; they act precisely and examine every detail carefully while taking decisions for the company says Demircioğlu We take Board decisions with consensus. They never say no but we sense that they would disagree and remove that decision from the agenda.'

Demircioğlu claims that a Turkish company would not have difficulties in making business with a German partner since both countries have cultural and social similarities, he suggests seeing similarities in family structures. He also emphases, with the preciseness and strict discipline of Germans and entrepreneurship spirit of Turkish businessmen added together, it would not be a surprise to see growth rates in short time. Demircioğlu concludes his words saying that in 11 years, Borusan Boru and Mannesmann had many joint businesses and Borusan Mannesmann Boru Company will continue to be a successful example of a Turkish-German partnership in the future.

Egesil Kimya
Metin Mansur, General Manager

Founded in 2001, Egesil Kimya A.Ş. is a joint venture between the German Evonik Degussa GmbH and the Ege Group. Established by taking over the silica & aluminium silicates manufacturing division of Ege Kimya, Egesil Kimya continues to manufacture these products with an ever - increasing capacity to serve its growing customer base.

The result of becoming an important contributor to the Evonik global silica manufacturing & marketing effort has mean that Egesil made it into a top class manufacturer of silica and aluminium silicates used in the rubber tyre as well as paint industries. The total manufacturing capacity of 20,000 mt in 2005 will reach 40.000 mt in 2011.

The General Manager of Egesil Kimya Metin Mansur says it was easy to manage merging the philosophies of the two companies. Metin Mansur; " We used to produce these products and sell in international markets in competition with Degussa and got to know them through these activities. Soon after, we began partnership discussions - that was in the mid1990s. They had shown interest in joining us as partners and this was realized after we moved our manufacturing facilities to Adapazarı."

Metin Mansur explains , that with their German partner, they allocated a larger share of their capacity to serving the tyre sector. Mansur says; " There are big tyre producers in Turkey that export internationally have an increasing export volume. Tyre factories in Turkey along with ones in Eastern Europe and Egypt have the capacity to supply whole the of the Europen market in the near future.

The Turkish - German partnership did not create a big change in company structure says Mansur; they work according to certain criteria and with management systems which we also adapted. In some instances we also used these systems in the Ege Kimya

8 Republic of Turkey Prime Ministry Undersecretariat of Treasury

operation and Evonik Degussa in turn adapted some practices from our plant to their other plants worldwide. So, all in all, it can be said that there have been mutual benefits to the respective parties. Egesil Kimya is currently ISO 9001 and 14001 certified and is now working towards ISO 18000 certification and supplies silica raw materials to tyre factories in Turkey, Germany, Poland, France, Italy, Romania & Egypt.

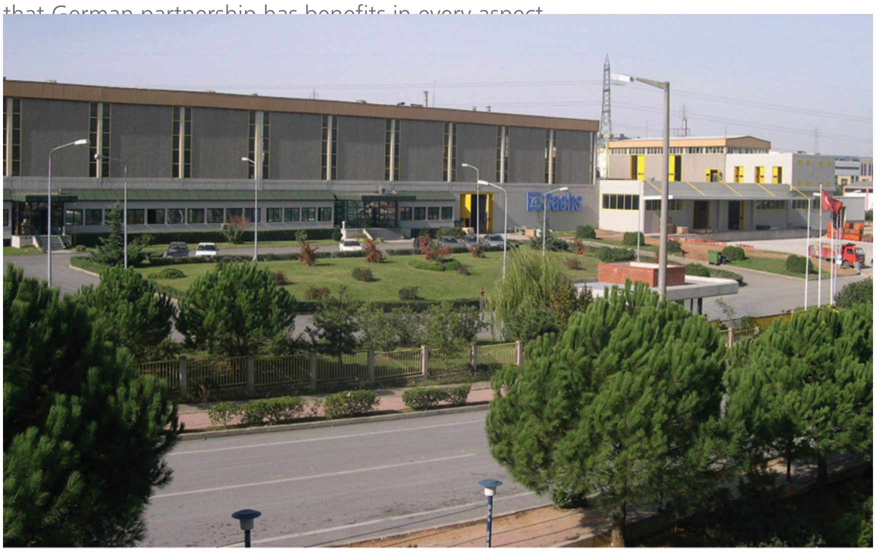
ZF Sachs
Cüneyt Alp, Deputy General Manager

In 1970's the company started its operation in Turkey and after few years started to expand its portfolio by merging with one of the biggest enterprises in Germany ZF Group. ZF Group merged with Sachs Factory that produces shock absorber and they believe this collaboration will be beneficial in upcoming periods.

Deputy General Manager of ZF Sachs's Factory in Turkey Cüneyt Alp started working in the factory 32 years ago. He says, due to the conditions at that time, they could only do business with a license agreement company in Britain and bring installed shock absorber parts in groups to Turkey. They use shock absorber oil to these parts and finish the process. After the German partnership, they started producing these parts in Turkey and increased their employment and annual revenue.

German partnership played a great role in development of the company Ateş says, 'Back then, the situation in Germany was different than today. They had higher technologic standards compared to Turkey. But now we are able to produce and export.'

Cüneyt Alp; 'German executives give importance to know-how. They value your opinion and what you know, also they value training the employee. That's why we send our workers to Germany to get trained. They pay more attention to technologic development rather than commercial concerns.' He emphases the added value of the German partnership to the development of the company and says, 'They increased their goal from 1 million to 4 million. This number achieved between 2000- 2008 is a great success. We multiplied by 4 in such a short term. This shows the reliability. We have approximately 750 workers, this is a considerable amount.' He concludes by emphasizing that German partnership has benefits in every aspect.



8 Republic of Turkey Prime Ministry Undersecretariat of Treasury

3. Turkish SME's: "Ready for a German Partner":

DEKA Elektronik
Atilla Eren, Chairman

Established in 1993 by two engineer friends, DEKA strives to be number one in its sector. Making innovations in component and plug production, DEKA wishes to continue and develop its operations in this field. Chairman of DEKA Elektronik Atilla Eren says Turkey is now producing and even exporting the products that once all imported.

Atilla Eren claims that they made a great progress in plug production. He says DEKA made many innovations in 11 years by producing plug in termination, terminal boxes and blocks, components and cable. Eren; 'We as two engineer college mates established DEKA in 1993. Until 1993, I was a professional worker in white good sector; my partner was in electronic business. In 1993, electric components; intermediate goods was imported. There was a potential in component field, and then we started to make one. Arçelik encouraged us on this, projects generated. Arçelik trusted us and supported. That's how we started to produce components international standards. We showed how to do the business and how to compete. This motivated us.' He also said that 15 years ago Turkey imported plug in termination says Eren, but now DEKA became Europe's biggest plug in termination and component production company. He continues 'At that time Turkey used to import plug in termination, but now we are the biggest in Europe. We send goods to the 1/3 of Europe. We are suppliers of main industries in Europe like Arçelik, Vestel Bosch, Indesit, and Electrolux... We continue to work with these companies; of course Arçelik has an important contribution. Arçelik supported us in the projects like corporate culture, developing supply industry and quality -

efficiency and development. Until 2000, we were 100% working with Arçelik. After 2000, according to our gentlemen's agreement we started to work with alternative buyers.' After this point, he adds, they continued on their own. Eren says the company developed very fast and reached an important amount of revenue, being a corporate company has a great the effect on achieving this. Eren; 'After entering Europe market we grew 50% per year. We are the number one company of Turkey that exports fasteners. We gained this experience of corporate culture by working with Arçelik. This field had a lot to offer and we benefited from this opportunity.'

Eren declares the importance of competitiveness in the sector; he says 'What makes us competitive? How do we become competitive? Italians have automation and technology, Germans also do. What makes us competitive is that Turkey has a great amount of entrepreneurship. Employers and workers have the courage and ability to finish the job. We have done business in China and Europe maybe in the future North and South Africa. We must keep in mind that plugs, like currencies, changes by the countries. We produce different varieties of plugs and components.'

Eren suggests DEKA is eager to have new partnerships and believes this would develop the company. He says; 'DEKA is an engineer originated company which can produce unique custom made products. Aside from this, DEKA has international norms, can produce products in accordance with the standards.' Turkish export companies reach success by working devotedly and studious staff. In spite of using the most expensive energy, we still manage to succeed. Our purpose is defined since the establishment of the company; we started from the scratch and created a good synergy in 11 years. We are the first company to bring British standards to Turkey. We have done a lot, that's why we can consider having a partner now. A partner that not only uses our products but can expand our product rage would be better.'

Mebant
İnan Kardeş, Chairman

Established in 1985; Mebant founded by an architect İnan Kardeş. The company acquainted with automotive sector in 1990's after selling technical equipments for construction sector in the first 5 years. They supplied materials to Ford Otosan in 1996, Toyota in 2000 and Renault in 2004. Working in the field of industrial foam rubber isolation products, Mebant produces foam felt rubber and flexible cellular material.

The company, which specializes in heat, sound, dust, water and vibration isolation in fields of automotive, white goods, construction, marine, electronics, cooling - heating air conditioning; produces high quality and economical functional insulation products using the following processes; lamination for foam rubber processing, two dimensional press cut, CNC sponge processing, kiss cut, CNC sponge incision, thermoforming etc.

Among Mebant's products are adhesive and non-adhesive foam rubber gaskets made with polyethylene, PVC, polyurethane, EPDM, EVA and syntetic rubberadhesive sponge bands, special insulation products produced with thermoforming processes, special insulation solutions for the automotive sector, foam blocs for the construction sector, led sheet insulation (particularly for sound and heat insulation), and pyramid-shaped acoustic sponges. General Manager of Mebant Aydıner Ateş specifies they produce in 3 factories and says 'We have our first factory in 8,000 m2 closed area in İzmir. We make production in closed area factories with 320 workers; 3000 m2 in Eskişehir, 7,000 m2 in Gebze. We imported raw material for a long time, with the new factories in business; production increased and now we only import 50% of the basic material.'

Ateş says they sell 65-70 % of their production to automotive and 20-25% to white goods. He says; 'We had revenue rate of 13 million Euros in 2009. We aim to increase

our revenues for 20% compared to last year.'
Export rate of Mebant increases per year. In 2006, Mebant exported 1-2% of their revenue and in 2009 this rate increased to 16%.

General Manager Ateş claims they even export to China. He continues; 'We export to Germany, France, Portugal, Spain, Britain, Austria, Romania and Poland in Europe, Morocco in North Africa and also China and Korea.'

He suggests automotive sector will develop rapidly in 5 years since foam rubber is cheap in Turkey. Europe has an advantage for luxury production claims Ateş; Toyota and Renault are aware of the difficulties in doing business in Europe, so they will shift to East. Ateş claims that they've been offered a partnership from France and Sweden before the crisis; 'We would not say no as long as there is a good offer. We are eager for a partnership negotiations and our company is ready for a partner.'